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GENERAL

1. US delegates not to bargain with UN group on German currency-- S-75

The Department of State has advised US representatives in London and Paris of its view that the work being done on the Berlin currency situation by the Security Council's Experts Committee is most likely to be unfruitful. The Department therefore considers that the western experts dealing with the committee should "remain aloof" and not bargain, in order to avoid being led by constant pressure to make piecemeal concessions to the Soviet viewpoint without having foreknowledge of the Soviet counter-proposals. The Department believes that by refusing to negotiate with the Committee, the western bargaining position can be preserved and the western powers can "await with some confidence" a report from the committee, if one is made, which would steer a middle course between the opposed views of the western powers and the USSR. The Department declares that only after such a report has been analyzed in the light of political conditions then prevailing in Berlin can the western powers jointly determine whether the report constitutes a useful starting point for negotiations through the intermediation of a neutral group.

2. Yugoslavia and Italy to open negotiations-- The Italian Legation (14-5

in Belgrade has informed US Ambassador Cannon that an Italian-Yugoslav agreement has been reached for the opening of negotiations in both Rome and Belgrade on currently outstanding differences. Such negotiations will reportedly deal with reparations, compensation for Italian property confiscated by the Yugoslavs, fishing rights, regulation of border traffic, and exchange of prisoners. Cannon comments that development of such discussions indicates a Yugoslav desire to clear the ground for more comprehensive negotiations with Italy.

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3. US requests clarification of Dutch intentions in Indonesia--The Department of State has informed Dutch representatives in Washington that if it is the intention of the Netherlands Government to continue negotiations with the Indonesian Republic, the Government should issue an authoritative explanation to that effect, to accompany the Dutch reply to Indonesian Premier Hatta's letter of 13 December. The Department considers that the Dutch letter of 16 December leaves little leeway for such negotiations. US Embassy The Hague reports that the Dutch Foreign Office has described the Dutch letter to Hatta as "truly the last possible move from the Netherlands side." The Dutch Foreign Minister has informed the Embassy that he can keep the situation within the Dutch Government "in hand" only until 18 December. The Embassy considers that the Dutch reply represents a demand for "immediate" Republican participation in the interim government; the Embassy indicates that the Dutch intend to go ahead in any case and do not envisage a resumption of negotiations through the Good Offices Committee.

S-5

(CIA Comment: CIA considers that: (a) a negotiated settlement is no longer possible in view of the apparent inability of the opposing sides to compromise their differences; (b) the Dutch remain firmly determined to establish the interim government either with or without the Republic; and (c) Dutch police action in the next few weeks is a distinct possibility.)

FAR EAST

4. CHINA: Mutiny among Nationalist North China forces--The Assistant US Naval Attache in Peiping has been told by Fu I-so-yl, Nationalist Commander in North China, that at least three of his Nationalist armies and part of the Chinese Air Force have refused to obey his orders and that local garrison troops are acting independently. Fu also declared that unless these troops are ordered by Chiang Kai-shek to obey Fu, Peiping will fall. The Assistant NA further reports that Fu's effective forces now total only one division and that the bulk of his remaining forces have been cut off between Kalgan and Peiping.

NAVY

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